

HERRIMAN CITY

**Annual Financial Report
Fiscal Year Ended June 30, 2006
(With Accountants' Report Therein)**

HERRIMAN CITY

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
Herriman City, Utah

December 26, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herriman City, Utah (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

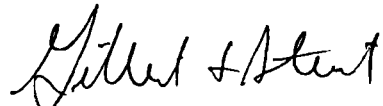
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated December 26, 2006 on our consideration of the City's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary information are not a required part of the basic financial statements, but are supplementary information required by accounting principles

Generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, Impact fee analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Impact fee analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


GILBERT & STEWART
Certified Public Accountants

HERRIMAN CITY

Management's Discussion and Analysis June 30, 2006

Herriman City's management presents to the readers of its financial statements this narrative information. It contains an overview and analysis of the financial position and results of operations as of and for the twelve months ended June 30, 2006. As management of the City, we encourage readers to consider information contained in this discussion.

FINANCIAL HIGHLIGHTS

The assets of Herriman City exceeded its liabilities at the end of the current fiscal year by \$99,881,078 (net assets). Of this amount, \$6,309,168 (unrestricted assets) is available to meet ongoing obligations to citizens and creditors. Net assets increased by \$17,471,802.

The City's governmental funds reported a combined ending fund balance of \$79,168,375. Of the combined total fund balance, \$2,782,625 all is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the general fund at June 30, 2006, totaled \$2,301,931 and is 27% of the general fund total revenues for the year. Total debt for Herriman City increased approximately \$2,034,333. The City issued water revenue bonds series 2005 for \$5,493,000 and taxable water revenue bonds series 2005 for \$556,000. The City also issued new bonds sales tax series 2005 bonds for \$552,000 during the year. The City paid the revenue bond series 2002 for \$1,896,000. The City also paid the water revenue bonds series 2003 and the Herriman pipeline bonds for \$2,239,000 and \$494,021, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to Herriman City's basic financial statements: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains information in addition to the basic financial statements that will help the reader gain a more in-depth understanding of the City.

Government-wide Financial Statements give readers a broad overview of the entire City's financial position and changes in financial position, similar to consolidated financial statements in a private sector business. These statements consist of the statement of net assets and the statement of activities.

The statement of net assets shows Herriman City's entire assets and liabilities with the difference shown as net assets. Increases or decreases over time in net assets gives an indicator as to whether the financial condition of Herriman is improving or declining.

The statement of activities shows the changes to net assets that occurred during the most recent fiscal year. These changes are recorded on an accrual basis when the underlying event that causes the change occurs, regardless of when the cash transaction takes place.

Both of the government-wide financial statements distinguish between activities that are largely supported by taxes and intergovernmental revenues and those whose operations are entirely or largely financed by user charges and fees. The governmental activities for Herriman City include general government, administration, facilities, information technology, storm drain, public safety, community development, streets, cemetery, and other departments. The business-type activities include water and sewer.

The government-wide financial statements include Herriman City itself and the Municipal Building Authority which is a legally separate entity from the City, but for all practical purposes functions as a part of the City and is therefore blended as an integral part of the primary government. The government-wide financial statements are found immediately following this discussion and analysis.

Fund Financial Statements are a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. Herriman City, like other state and local

governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. All of the City's funds can be categorized into one of two categories: governmental funds and proprietary funds. Governmental funds account for essentially the same activities as the governmental activities in the government-wide financial statements, but with a narrower focus. Governmental funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short term financing requirements.

Comparing similar information presented in the government-wide statements for the governmental activities with that presented in governmental funds statements can provide useful information because of the different focus of the two approaches. With the long-term focus of the government-wide statements, a reader may be able to better understand the long-term effects of the near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance show reconciliation between the governmental funds statements to the governmental activities in the government-wide statements to aid in the comparison.

Herriman City uses five major government funds. Of this number, information is shown separately for the general fund, park special revenue fund, flood control special revenue fund, road special revenue fund, and water rights special revenue fund all of which are deemed major funds. Information from the other funds is presented in a single combined column. Individual presentations for these non-major funds are contained in individual information shown after the notes to the financial statements as listed in the table of contents. The City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

The enterprise fund consists of the water operations of the City, which is a major fund of Herriman City. The enterprise fund reports the same functions as the business-type activities in the government-wide financial statements. Proprietary funds present the same information as in the government-wide statements, except in more detail.

Notes to the Financial Statements contain additional information important to a complete understanding of the information contained in the government-wide and fund financial statements. Notes to the financial statements are located after the statements for major funds as listed in the table of contents.

OTHER INFORMATION

The combining statements referred to earlier for non-major governmental funds are contained in this report immediately following the notes to the financial statements and required supplementary information as listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

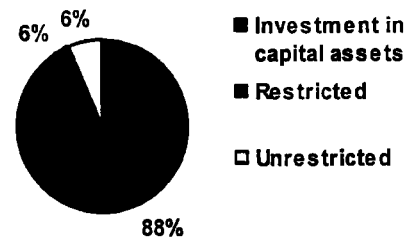
Herriman City Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 11,897,530	\$ 12,361,210	\$ 3,227,914	\$ 1,068,636	\$ 15,125,444	\$ 13,429,846
Non-current assets	211,628	375,308	697,066	-	908,694	375,308
Capital assets	72,119,853	59,845,479	26,576,608	18,650,298	98,696,461	78,495,777
Other assets	27,171	-	75,685	2,669,672	102,856	2,669,672
Total assets	84,256,182	72,581,997	30,577,273	22,388,606	114,833,455	94,970,603
Current liabilities	2,438,778	2,398,339	703,866	2,661,027	3,142,644	5,059,366
Non-current liabilities	2,649,029	3,663,823	9,160,704	3,838,137	11,809,733	7,501,960
Total liabilities	5,087,807	6,062,162	9,864,570	6,499,164	14,952,377	12,561,326
Net assets						
Investment in capital assets, net of related debt	70,058,650	56,387,891	17,186,160	12,328,142	87,244,810	68,716,033
Restricted	6,326,742	7,509,998	-	-	6,326,742	7,509,998
Unrestricted	2,782,983	2,621,946	3,526,543	3,561,300	6,309,526	6,183,246
Total net assets	79,168,375	66,519,835	20,712,703	15,889,442	99,881,078	82,409,277
Total liabilities and net assets	\$ 84,256,182	\$ 72,581,997	\$ 30,577,273	\$ 22,388,606	\$ 114,833,455	\$ 94,970,603

By far, the largest component of Herriman City's net assets is its investment in capital assets. The 88% of total net assets represents the City's investment in land and land improvements, buildings, machinery and equipment, roads, street lights, and bridges, less any related outstanding debt that was used to acquire these assets. Herriman City uses these capital assets to provide services to citizens who live, work, pass through, or benefit in other ways from the City. By their nature, these assets are not available for future spending. Further, even though these capital assets are reported net of any related debt, resources needed to repay the debt must come from other sources, as the assets themselves cannot be used to satisfy the related obligations.

An additional part of net assets (6%) are assets that are subject to external restrictions on how they may be expended. The remaining 6% of net assets can be used to meet the City's ongoing obligations to its creditors and to citizens.

**Investment in Capital Assets
Represents 88% of Total Net Assets**

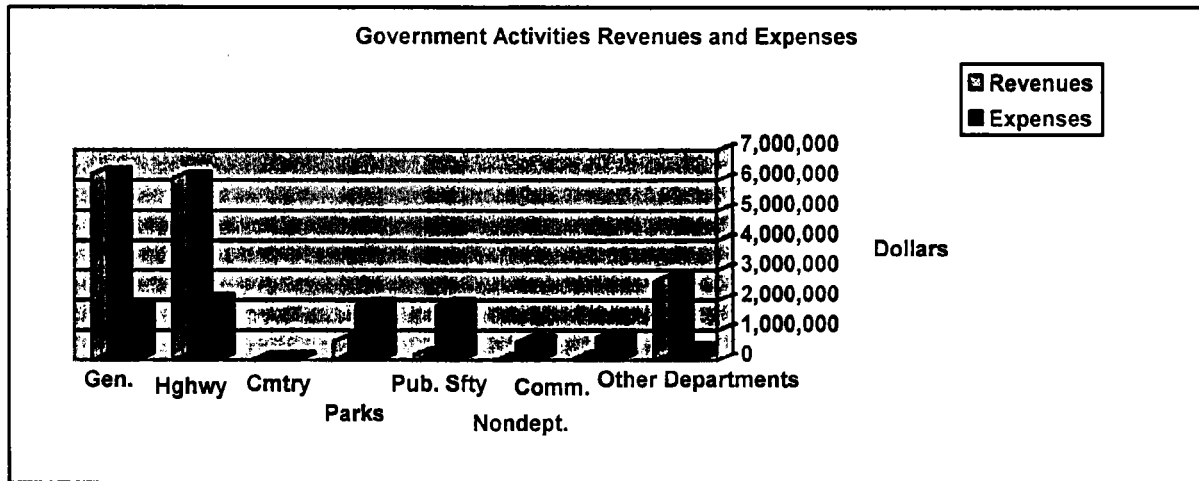


Herriman City's Changes in Net Assets

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
REVENUES				
Charges for services	\$ 6,199,832	\$ 7,981,529	\$ 2,274,444	\$ 1,425,024
Operating grants and contributions	503,217	306,529	-	-
Capital grants and contributions	9,160,143	10,170,218	3,907,724	2,507,644
General revenues:				
Property taxes, levied for general purposes	1,215,446	949,821	-	-
Franchise taxes	25,838	14,305	-	-
Impact fees	4,862,643	7,241,742	-	-
Sales taxes	961,598	541,262	-	-
Gain from sale of assets	47,053	497,125	-	-
Other revenues	90,391	73,603	543	-
Investment earnings	474,038	229,987	113,462	973
Total revenues	<u>23,540,199</u>	<u>28,006,121</u>	<u>6,296,173</u>	<u>3,933,641</u>
EXPENSES				
General government	1,788,650	1,391,809	-	-
Facilities	141,184	111,900	-	-
Information technology	109,019	162,772	-	-
Highway and streets	1,995,291	1,687,123	-	-
Storm drain	118,845	294,797	-	-
Cemetery	66,038	43,615	-	-
Parks	1,837,391	1,584,294	-	-
Public safety	1,833,965	991,646	-	-
Nondepartmental	617,929	848,035	-	-
Community development	780,389	1,036,328	-	-
Interest on long-term debt	146,905	171,077	-	-
Water	-	-	2,928,964	2,095,781
Total expenses	<u>9,435,606</u>	<u>8,323,396</u>	<u>2,928,964</u>	<u>2,095,781</u>
Other sources				
Transfers in	-	-	1,456,052	2,806,128
Transfers out	(1,456,052)	(2,806,128)	-	-
Total other sources	<u>(1,456,052)</u>	<u>-</u>	<u>1,456,052</u>	<u>2,806,128</u>
CHANGES IN NET ASSETS	12,648,541	16,876,597	4,823,261	4,643,988
NET ASSETS, JULY 1, 2005	<u>66,519,834</u>	<u>49,643,237</u>	<u>15,889,442</u>	<u>11,245,452</u>
NET ASSETS, JUNE 30, 2006	<u><u>\$ 79,168,375</u></u>	<u><u>\$ 66,519,834</u></u>	<u><u>\$ 20,712,703</u></u>	<u><u>\$ 15,889,440</u></u>

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

Governmental activities net assets increased by \$12,648,541 for the year ended June 30, 2006. Governmental activities contributed to 72% of the increase in total City net assets during the year. The major reason for the increase is the contributions from developers for subdivisions and impact fees for new homes. The City also collected various other taxes and revenues above the amount needed for governmental activities.

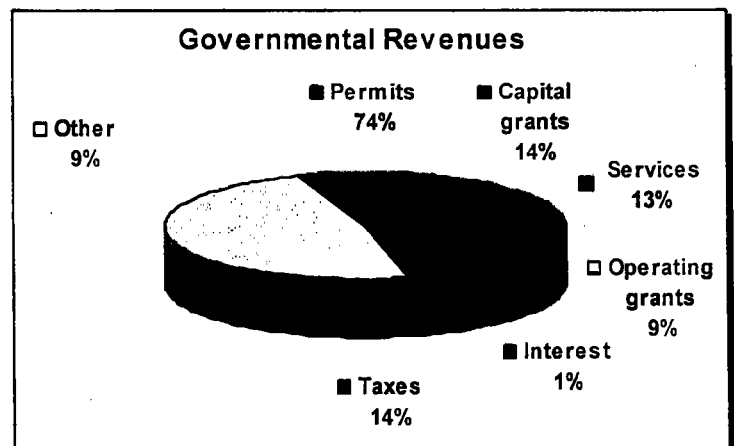
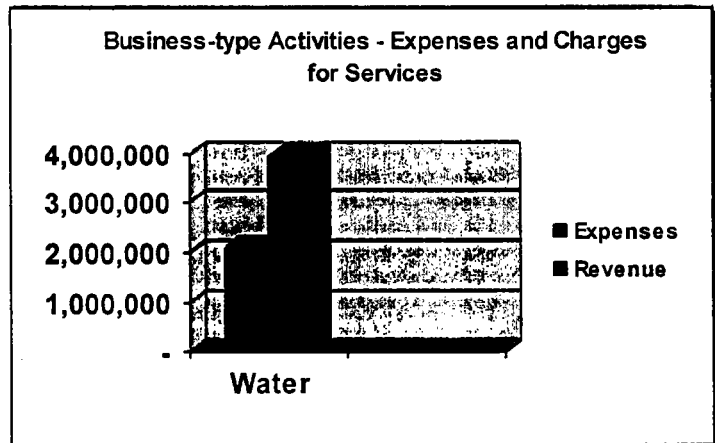


Business-type activities contributed an amount of \$4,823,291 or 28% of the total increase to net assets. The most significant reason for this increase in business-type activities is a capital contribution from developers.

FINANCIAL ANALYSIS OF HERRIMAN CITY'S FUNDS

Herriman City's governmental funds provide information on the short-term resource inflows and outflows, and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources. The unreserved portion of this total fund balance is a measure of the available spendable resources at June 30, 2006.

For the period ended June 30, 2006, the City's governmental funds reported combined net assets in the amount of \$9,202,894 with a decrease of \$959,600, compared with the prior fiscal year. Of the total balance at year-end, \$2,875,794 is unreserved and undesignated. Of the remaining \$6,327,100 of combined net assets, \$211,986 is reserved for servicing the City's debt, with the remaining \$6,115,114 being reserved for capital projects of the City.



The general fund is the main operating fund for Herriman City. At June 30, 2006, the general fund's unreserved fund balance was \$2,301,932, while total fund balance equaled \$2,301,932. The total fund balance of the general fund for Herriman City increased by \$575,592. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year.

The special revenue funds account for impact fees which are restricted for special projects. The parks special revenue fund balance increased \$48,235. The fund balance in the flood control fund decreased by \$1,875,030. The road special revenue fund balance increased by \$1,027,212 and the water rights special revenue fund increased by \$151,848.

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the City's major proprietary fund totaled \$3,526,543. Discussions about the finances of this fund are addressed in the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original and final amended budgets for the general fund amounted to a total increase in appropriations of \$828,500. Of the total increase in expenditure budgets, \$828,500 was funded from increases in revenue estimates.

The differences between the original and final amended budgets for the major special revenue funds amounted to a total increase in appropriations of \$672,000. The increases in appropriations were the result projects in the street and road departments. The administrative department increased \$110,990 while the community development showed a decrease of \$500,000 due to decreases in development in the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Herriman City's investment in capital assets for its governmental and business type activities has a combined total of \$98,696,461 (net of \$7,016,293 accumulated depreciation) at June 30, 2006. Types of assets included in this category are land, buildings and related improvements, vehicles, machinery and equipment, roads (including curb and gutter), street lights, traffic signals, water and waste water distribution and collection systems, and construction in progress of \$3,145,940. The City's investment in net capital assets equals nearly 88% of total assets. Governmental activities net capital assets to governmental activities assets equaled 73% while business-type activities percentage was 27%.

Major capital asset activities that occurred during the past fiscal year include:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 17,961,673	\$ 17,455,173	\$ 1,457,212	\$ 1,457,212
Infrastructure	41,890,180	33,074,887	-	-
Buildings	5,205,973	4,364,498	58,400	58,400
Water rights	-	-	3,981,625	3,981,624
Improvements, other than buildings	6,900,922	5,599,273	21,752,973	17,474,670
Vehicles	1,414,335	871,084	264,390	210,100
Office furniture and equipment	1,468,522	1,121,883	210,608	187,984
Construction in progress	2,644,752	510,338	501,188	152,953
Accumulated depreciation	(5,366,506)	(3,151,657)	(1,649,788)	(891,021)
Net book value	<u>\$ 72,119,851</u>	<u>\$ 59,845,479</u>	<u>\$ 26,576,608</u>	<u>\$ 22,631,922</u>

HERRIMAN CITY

Statement of Net Assets

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents			
Restricted	\$ 6,666,667	\$ 3,176,954	\$ 9,843,621
Unrestricted	3,428,531	742	3,429,273
Receivables			
Property, and franchise and excise taxes	1,602,685	-	1,602,685
Other receivables, less allowance for doubtful accounts of \$0	33,647	-	33,647
Internal balances	166,000	(166,000)	-
Accounts, less allowance for doubtful accounts of \$0	-	207,039	207,039
Inventory	-	187,107	187,107
Total current assets	<u>11,897,530</u>	<u>3,405,842</u>	<u>15,303,372</u>
NONCURRENT ASSETS			
Restricted cash and cash equivalents	<u>211,628</u>	<u>519,137</u>	<u>730,765</u>
Property and equipment, at cost			
Land and water rights	17,961,673	5,438,837	23,400,510
Infrastructure	38,430,717	-	38,430,717
Buildings	4,860,118	56,697	4,916,815
Improvements, other than buildings	6,130,589	20,262,152	26,392,741
Vehicles	1,041,176	178,755	1,219,931
Office furniture and equipment	1,050,827	138,980	1,189,807
Construction in progress	2,644,753	501,188	3,145,941
Net property and equipment	<u>72,119,853</u>	<u>26,576,609</u>	<u>98,696,462</u>
Other non-current assets			
Bond issue costs, less accumulated amortization of \$18,637	27,171	75,685	102,856
Water rights	-	-	-
Total other noncurrent assets	<u>27,171</u>	<u>75,685</u>	<u>102,856</u>
Total assets	<u>\$ 84,256,182</u>	<u>\$ 30,577,273</u>	<u>\$ 114,833,455</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Net Assets, Continued June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 685,547	\$ 290,901	\$ 976,448
Retainage payable	-	-	-
Current portion of long-term debt			
payable from restricted assets	257,000	217,265	474,265
Current portion of capital leases	190,298	28,518	218,816
Accrued liabilities	125,204	15,150	140,354
Deferred revenue	1,232,027	-	1,232,027
Accrued interest, payable from restricted assets	36,702	152,032	188,734
Total current liabilities	<u>2,526,778</u>	<u>703,866</u>	<u>3,230,644</u>
NONCURRENT LIABILITIES			
Long-term compensation liability	56,467	16,038	72,505
Bonds payable from restricted sources	1,248,000	9,054,838	10,302,838
Capital leases	393,076	89,828	482,904
Construction bonds	863,486	-	863,486
Total noncurrent liabilities	<u>2,561,029</u>	<u>9,160,704</u>	<u>11,721,733</u>
Total liabilities	<u>5,087,807</u>	<u>9,864,570</u>	<u>14,952,377</u>
<u>NET ASSETS</u>			
Investment in capital assets, net of related debt	70,058,650	17,186,160	87,244,810
Restricted for:			
Capital projects	6,115,114	-	6,115,114
Other restricted	211,986	-	211,986
Unrestricted	2,782,625	3,526,543	6,309,168
Total net assets	<u>79,168,375</u>	<u>20,712,703</u>	<u>99,881,078</u>
Total liabilities and net assets	<u>\$ 84,256,182</u>	<u>\$ 30,577,273</u>	<u>\$ 114,833,455</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Activities
Year Ended June 30, 2006

Functions and Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business- Type Activities	Total
PRIMARY GOVERNMENT							
Government activities							
General government	\$ 1,788,650	\$ 4,972,719	\$ 13,435	\$ 1,216,528	\$ 4,414,032	\$ -	\$ 4,414,032
Facilities	141,184	7,211	-	-	(133,973)	-	(133,973)
Information technology	109,019	949	-	-	(108,070)	-	(108,070)
Highway and streets	1,995,291	26,620	360,882	5,677,216	4,069,427	-	4,069,427
Storm Drain	118,845	800,275	-	1,841,060	2,522,490	-	2,522,490
Cemetery	66,038	39,161	-	-	(26,877)	-	(26,877)
Public safety	1,833,965	50,997	128,900	-	(1,654,068)	-	(1,654,068)
Parks	1,837,391	220,826	-	425,339	(1,191,226)	-	(1,191,226)
Non-departmental	617,929	-	-	-	(617,929)	-	(617,929)
Community development	780,389	81,074	-	-	(699,315)	-	(699,315)
Interest on long-term debt	146,905	-	-	-	(146,905)	-	(146,905)
Total government activities	9,435,606	6,199,832	503,217	9,160,143	6,427,586	-	6,427,586
Business-type activities							
Water and sewer	2,928,964	2,274,444	-	3,907,724	-	3,253,204	3,253,204
Total business-type activities	2,928,964	2,274,444	-	3,907,724	-	3,253,204	3,253,204
Total primary government	\$ 12,364,570	\$ 8,474,276	\$ 503,217	\$ 13,067,867	6,427,586	3,253,204	9,680,790
General revenues							
Taxes							
Property taxes, levied for general purposes					1,215,446	-	1,215,446
Franchise taxes					25,838	-	25,838
Sales taxes					961,598	-	961,598
Impact fees					4,862,643	-	4,862,643
Sale of assets					47,053	-	47,053
Other revenues					90,391	543	90,934
Transfers					(1,456,052)	1,456,052	-
Investment earnings					474,038	113,462	587,500
Total general revenues, special items, and transfers					6,220,955	1,570,057	7,791,012
Changes in net assets					12,648,541	4,823,261	17,471,802
Net assets, July 1, 2005					66,519,834	15,889,442	82,409,276
Net assets, June 30, 2006					\$ 79,168,375	\$ 20,712,703	\$ 99,881,078

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Balance Sheet Governmental Funds June 30, 2006

	General	Debt Service	Special Revenue Flood Control	Special Revenue Roads	Special Revenue Water Rights	Other Governmental Funds	Total Governmental Funds
ASSETS							
ASSETS							
Cash and cash equivalents	\$ 2,852,167	\$ 423,504	\$ -	\$ -	\$ -	\$ 152,859	\$ 3,428,530
Receivables							
Property, franchise, and excise tax	1,602,685	-	-	-	-	-	1,602,685
Other receivables, less allowance for doubtful loans of \$0	33,647	-	-	-	-	-	33,647
Due from other funds	166,000	-	-	-	-	-	166,000
Restricted assets							
Cash and cash equivalents	-	211,986	1,354,131	2,626,642	1,301,991	1,383,545	6,878,295
Total assets	\$ 4,654,499	\$ 635,490	\$ 1,354,131	\$ 2,626,642	\$ 1,301,991	\$ 1,536,404	\$ 12,109,157
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 401,851	\$ 2,500	\$ 38,540	\$ 80,792	\$ -	\$ 161,863	\$ 685,546
Accrued liabilities	125,204	-	-	-	-	-	125,204
Construction bonds	863,486	-	-	-	-	-	863,486
Deferred revenue	1,232,027	-	-	-	-	-	1,232,027
Total liabilities	2,622,568	2,500	38,540	80,792	-	161,863	2,906,263
FUND BALANCES							
Unreserved	2,301,931	421,004	-	-	-	152,859	2,875,794
Reserved for:							
Bond sinking funds	-	211,986	-	-	-	-	211,986
Other purposes	-	-	1,045,591	2,545,850	1,301,991	1,221,682	6,115,114
Total fund balances	2,301,931	632,990	1,045,591	2,545,850	1,301,991	1,374,541	9,202,894
Total liabilities and fund balances	\$ 4,924,499	\$ 635,490	\$ 1,084,131	\$ 2,626,642	\$ 1,301,991	\$ 1,536,404	\$ 12,109,157

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets June 30, 2006

Total Fund Balance \$ 9,202,894

Total net assets reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. Those
assets consist of:

Land	\$ 17,961,673	
Infrastructure	41,890,180	
Buildings	5,205,973	
Improvements, other than buildings	6,900,922	
Office equipment	1,468,522	
Construction in progress	2,644,753	
Vehicles	1,414,335	
Less accumulated depreciation	(5,366,505)	
Total capital assets		72,119,853

Bond costs are expensed in governmental funds and
capitalized and amortized in government wide statements 27,171

Long-term liabilities applicable to the City's governmental
activities are not due and payable in the current period, and
accordingly, are not reported as fund liabilities. Interest on
long-term debt is not accrued in governmental funds, but
rather as an expenditure when due. All liabilities, both
current and long-term are reported in the statements of net
assets.

Accrued liabilities:

Obligation for compensation liabilities due after one year	(56,467)	
Accrued interest on bonds	(36,702)	
Bonds payable	(1,505,000)	
Capital leases	(583,374)	
Total liabilities		(2,181,543)

Total net assets of governmental activities \$ 79,168,375

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2006

	General	Debt Service	Special Revenue Flood Control	Special Revenue Roads	Special Revenue Water Rights	Other Governmental Funds	Totals
REVENUES							
General property taxes	\$ 1,215,446	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,215,446
Sales, use, and excise taxes	961,598	-	-	-	-	-	961,598
Franchise taxes	25,838	-	-	-	-	-	25,838
Licenses	38,035	-	-	-	-	-	38,035
Permits	4,961,304	-	-	-	-	-	4,961,304
Interest	158,279	16,056	124,729	64,680	65,385	44,913	474,042
Intergovernmental	364,539	-	-	-	-	-	364,539
Fines	50,997	-	-	-	-	-	50,997
Impact fees	-	-	800,275	1,085,264	1,514,073	2,259,692	5,659,304
Charges for services	340,005	-	-	-	-	-	340,005
Contributions	500	-	-	-	-	-	500
Grants	138,678	-	-	-	-	-	138,678
Sale of assets	123,495	-	-	-	-	-	123,495
Miscellaneous	99,105	-	-	-	-	-	99,105
Total revenues	<u>8,477,819</u>	<u>16,056</u>	<u>925,004</u>	<u>1,149,944</u>	<u>1,579,458</u>	<u>2,304,605</u>	<u>14,452,886</u>
EXPENDITURES							
Current							
Administration	1,072,114	-	-	-	-	-	1,072,114
Facilities	150,367	-	-	-	-	-	150,367
Information technology	158,928	-	-	-	-	-	158,928
Highway and streets	773,747	-	-	-	-	-	773,747
Street lights	123,324	-	-	-	-	-	123,324
Storm drain maintenance	235,328	-	-	-	-	-	235,328
Street signs	78,443	-	-	-	-	-	78,443
Cemetery	57,893	-	-	-	-	-	57,893
Public safety	1,838,314	-	-	-	-	-	1,838,314
Parks and recreations	1,504,257	-	-	-	-	-	1,504,257
Community affairs	185,637	-	-	-	-	-	185,637
Engineering	508,127	-	-	-	-	-	508,127
Fleet management	59,798	-	-	-	-	-	59,798
Community development	639,944	-	-	-	-	-	639,944
Capital outlay	-	-	2,800,034	122,732	1,427,610	2,480,155	6,830,531
Debt service							
Principal	-	2,145,000	-	-	-	-	2,145,000
Interest and other fiscal charges	-	139,227	-	-	-	-	139,227
Total expenditures	<u>7,386,221</u>	<u>2,284,227</u>	<u>2,800,034</u>	<u>122,732</u>	<u>1,427,610</u>	<u>2,480,155</u>	<u>16,500,979</u>
Revenues over (under) expenditures	<u>1,091,598</u>	<u>(2,268,171)</u>	<u>(1,875,030)</u>	<u>1,027,212</u>	<u>151,848</u>	<u>(175,550)</u>	<u>(2,048,093)</u>
OTHER FINANCING SOURCES (USES)							
Lease proceeds	536,494	-	-	-	-	-	536,494
Bond proceeds	-	552,000	-	-	-	-	552,000
Operating transfers in	-	1,028,199	-	-	-	491,000	1,519,199
Operating transfers out	(1,052,500)	-	-	-	-	(468,699)	(1,519,199)
Total other financing	<u>(516,006)</u>	<u>1,580,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,301</u>	<u>1,088,494</u>
Revenue and other sources over (under) expenditures and other uses	<u>575,592</u>	<u>(687,972)</u>	<u>(1,875,030)</u>	<u>1,027,212</u>	<u>151,848</u>	<u>(151,249)</u>	<u>(959,599)</u>
FUND BALANCE, JULY 1, 2005	<u>1,726,340</u>	<u>1,320,962</u>	<u>2,920,621</u>	<u>1,518,639</u>	<u>1,150,143</u>	<u>1,525,790</u>	<u>10,162,496</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 2,301,932</u>	<u>\$ 632,990</u>	<u>\$ 1,045,591</u>	<u>\$ 2,545,851</u>	<u>\$ 1,301,991</u>	<u>\$ 1,374,541</u>	<u>\$ 9,202,897</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Funds Balances - Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (959,600)

The change in net assets reported for governmental activities
in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which capital
outlay (\$5,920,222) is more than depreciation expense
(\$2,304,209).

3,616,013

Repayment of principal is an expenditure in the governmental
funds but reduces the liability in the statement of net assets.

2,457,708

Loan and lease proceeds are recorded as income in the fund
statement and as a liability in the government wide statement.

(536,494)

Bond proceeds are recorded as income in the fund statements
and as a liability in the government wide statement.

(552,000)

Some expenses reported in the statement of activities do not
require the use of current financial resources, and therefore,
are not reported as expenditures in governmental funds.

This adjustment is as follows:

Compensated absences

\$ (48,803)

Accrued interest

(13,816)

(62,619)

Contributions from the developer from assets contributed to the City
are financial resources not reported as revenues in the funds.

8,734,803

Proceeds from the sale of assets are recorded as revenue in the
governmental funds and are calculated in the gain on sale of
assets in the government wide statement

(76,442)

Bond costs are an expenditure in the governmental funds and are
capitalized and amortized in the government wide statement.

27,172

Change in net assets of governmental activities

\$ 12,648,541

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Net Assets Proprietary Funds June 30, 2006

	Business-type Activities Water/Sewer
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	
Restricted	\$ 3,176,954
Unrestricted	742
Receivables	
Accounts, less allowance for doubtful accounts of \$0	207,039
Inventory	187,107
Total current assets	<u>3,571,842</u>
NONCURRENT ASSETS	
Restricted cash and cash equivalents	<u>519,137</u>
Property and equipment, at cost	
Land and water rights	5,438,837
Buildings	58,400
Vehicles	264,390
Improvements, other than buildings	21,752,973
Office furniture and equipment	210,608
Work in process	501,188
Accumulated depreciation	(1,649,788)
Net property and equipment	<u>26,576,608</u>
Bond issue costs, less accumulated amortization of \$10,560	75,685
Total noncurrent assets	<u>75,685</u>
Total assets	<u>\$ 30,743,272</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 290,901
Current portion of long-term debt payable from restricted assets	217,265
Current portion of capital leases	28,517
Due to other funds	166,000
Accrued liabilities	15,150
Accrued interest	152,032
Total current liabilities	<u>869,865</u>
NONCURRENT LIABILITIES	
Long-term compensation liability	16,038
Capital leases	89,828
Bonds payable from restricted assets	9,054,838
Total noncurrent liabilities	<u>9,160,704</u>
Total liabilities	<u>10,030,569</u>
<u>NET ASSETS</u>	
Investment in capital assets, net of related debt	17,186,160
Restricted for:	
Capital projects	-
Debt service	-
Unrestricted	3,526,543
Total net assets	<u>20,712,703</u>
Total liabilities and net assets	<u>\$ 30,743,272</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds Year Ended June 30, 2006

	Business-type Activities Water/Sewer
OPERATING REVENUE	
Sales and charges for services	\$ 2,187,338
Total operating revenue	<u>2,187,338</u>
OPERATING EXPENSES	
Personal services	492,252
Supplies	555,410
Water purchases	664,354
Utilities	70,525
Depreciation and amortization	765,369
Total expenses	<u>2,547,910</u>
Operating income (loss)	<u>(360,572)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	113,462
Other revenue	543
Interest expense	(293,948)
Total nonoperating revenues (expenses)	<u>(179,943)</u>
CAPITAL CONTRIBUTIONS	
Grants and other contributions	5,363,776
Total capital contributions	<u>5,363,776</u>
Increase in net assets	4,823,261
NET ASSETS, JULY 1, 2005	<u>15,889,442</u>
NET ASSETS, JUNE 30, 2006	<u>\$ 20,712,703</u>

The accompanying notes are an integral part of this statement.

HERRIMAN CITY

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 2,039,059
Payments to suppliers	(496,826)
Payments to employees	(1,298,578)
Net cash provided by operating activities	<u>243,655</u>

CASH FLOWS FROM NONCAPITAL FINANCING

Interfund loans	166,000
Net cash provided by non capital financing	<u>166,000</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Bond proceeds	6,031,000
Purchase of capital assets	(644,782)
Principal paid on bonds and leases	(3,005,372)
Bond costs	(41,105)
Interest paid on bonds and leases	(176,446)
Net cash used in capital and related financing activities	<u>2,163,295</u>

Cash flows from investing activities

Investment earnings	113,462
Other receipts	545
Net cash used in investing activities	<u>114,007</u>

Net increase in cash and cash equivalents 2,686,957

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 1,009,876

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 3,696,833

CASH FLOWS FROM OPERATING ACTIVITIES

Operating income (loss)	\$ (360,572)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	765,369
Increase (decrease) due to changes in:	
Accounts receivable	(148,280)
Inventory	(187,107)
Accounts payable	178,819
Accrued liabilities affecting operating activities	3,524
Other liabilities	(8,098)

Net cash provided by operating activities \$ 243,655

HERRIMAN CITY

Notes to the Financial Statements June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization

Herriman City was incorporated May 17, 1999. The City operates under a mayor-council form of government and provides the following services authorized by its charter: facilities, information technology, public safety, highways and streets, public improvements, parks, recreation, planning and zoning, water, and general administrative.

Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds, agencies, and authorities for which the City holds corporate powers and all component units for which the City is financially accountable. The Governmental Accounting Standards Board (GASB) in its Statement No. 14, *The Financial Reporting Entity*, has established criteria to consider in determining financial accountability. The criteria are: appointment of a majority of the voting members of an organization's governing board, and either (1) the City has the ability to impose its will on the organization or (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

As required by Generally Accepted Accounting Principles (GAAP) these financial statements represent Herriman City, the primary government, and its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

The Herriman Municipal Building Authority is a legally separate entity from the City, but is part of the City, and is blended into the general fund. The sole purpose of the Municipal Building Authority is to serve the City as a financing agency for debt financed projects. The Herriman City Council serves as the Board of Directors of the Municipal Building authority.

Basis of Presentation – Government-Wide and Fund Financial Statements

Government-wide statements are comprised of the statement of net assets and the statement of activities. They contain information on all of the activities of the primary government and its component. Most effects of inter-fund activities have been eliminated from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues, while business-type activities receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenses. Direct expenses are those that can clearly be associated with a particular activity or program. Program revenues are: (1) charges to customers or others who purchase, use, or directly benefit from the services or goods provided by a given activity, or (2) grants or other contributions that are restricted to operations or capital needs of a specific activity. General revenues are those revenues like taxes and other items that are not properly reported as program revenues. Indirect expense allocated between departments is related to depreciation on assets. The depreciation expense is allocated based on the use of the asset by the departments.

Separate financial statements are included for governmental funds and proprietary funds. Major individual governmental funds are reported in separate columns in the governmental funds statements as are major individual proprietary funds in the proprietary funds statements.

Measurement Focus and Basis of Accounting

Measurement focus refers to the types of assets that appear on the statement of net assets and changes to those same assets that appear on the statement of activities. The flow of financial resources measurement focus shows current assets and liabilities on the statement of net assets, and changes to net current assets, in the statement of activities. The flow of economic resources measurement focus shows total assets and liabilities on the statement of net assets, and changes to net assets on the statement of activities. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Government-Wide and Proprietary Fund Statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of the timing of the related cash flows. Unbilled fees for proprietary funds are recorded as receivables at year end. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar other contributions are recognized as revenue as soon as the eligibility requirements of the provider have been met.

Herriman City's major enterprise fund is the water fund. The fund collects fresh water from springs and wells, treats it, and delivers potable water to nearly all residents and businesses located in the City.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are fees charged to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses, and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

Governmental Fund Statements use the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. "Available" means that amounts are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. As a practical matter, Herriman City uses 60 days as a cutoff for meeting the available criterion. Property taxes are considered "measurable" when levied and "available" when collected and held by the County. Any amounts not available are recorded as deferred revenue. Franchise taxes are considered "measurable" when collected and held by the utility company, and are recognized as revenue at that time. Other revenues that are determined to be susceptible to accrual include grants earned and other intergovernmental revenues, charges for services, and assessments. Property taxes and assessments are recorded as receivables when levied or assessed. However, they are reported as deferred revenue until the "available" criterion has been met. Sales and use taxes collected by the state and remitted to the City within the "available" time period are recognized as revenue. Revenues collected in advance are deferred and recognized in the period to which they apply.

Revenues that are determined to not be susceptible to accrual, because they are either not available soon enough to pay liabilities of the current period (60 days) or are not objectively measurable, include licenses, permits, and miscellaneous revenues. Revenue is recognized when cash is received.

Expenditures are recognized in the accounting period in which the fund liability is incurred, except for long-term obligations (debt service payments and long term compensated absences) and related interest which are recognized as expenditures when due. Inventories of supplies are expended when purchased.

Herriman City has five major governmental funds: (1) the general fund, (2) the debt service fund, (3) the flood control special revenue fund, (4) the road special revenue fund, and (5) the water rights special revenue fund. The general fund is the main operating fund. It accounts for all financial resources of the general government except for those required to be accounted for in another fund. The special revenue funds account for impact fee revenue and the construction of projects financed with impact fees. These constructed or improved capital assets are for the benefit of any or all governmental funds. In addition to the listed major governmental funds, the City also has a total of four non-major governmental funds: (1) water impact fees special revenue fund – impact fees, (2) the street lights special revenue fund, (3) the capital improvements fund, and (4) the parks special revenue fund.

Budgets and Budgetary Accounting

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 15 for the fiscal year commencing the following July 1, in accordance with Utah State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 15 a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Expenditures cannot exceed appropriations at the department level. Management can move budgeted amounts from one line item to another within a department or decrease appropriations. The City Council can increase appropriations after holding a public hearing.

The governmental funds budget is prepared using the modified accrual basis of accounting. Governmental appropriations lapse at year-end.

Cash, Cash Equivalents, and Investments

The City complies with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement requires certain investments to be reported at fair value and the change in fair value to be included in revenues or expenses. The City's policy is to report all investments at value and the change in fair value to be included in revenues or expenses. The City's investment in the State Treasurer's Pool has a fair value equivalent to the value of the pool shares. This pool is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. In all statements the City considers all highly liquid investments, (including restricted assets) that mature within ninety days or less when purchased, to be cash equivalents.

Depreciable Fixed Assets

Fixed assets are valued at historical cost or estimated historical cost for assets where actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The City has a capitalization threshold of \$2,000 for infrastructure in the public right of way and \$500 for all other assets. The City follows GAAP by capitalizing a portion of its interest costs (net of any interest earned on related interest bearing investments acquired with proceeds of related tax-exempt borrowings) as a cost of constructed property and equipment in enterprise funds. Depreciation of fixed assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Improvements, other than buildings	10-30
Machinery and equipment, including leased property under capital leases	5-15
Infrastructure in public way, including roads, signals, lights, and bridges	15-30
Water and sewer lines	30
Vehicles	5

Bond Issuance Costs and Amortization

Amortization of bond issue costs and bond discount are computed on the straight-line method over the life of the related bonds.

Property Taxes

Ad valorem (based on value) property taxes constitute a major source of general fund revenue. Taxes are levied through the passage of an ordinance in June of each year. The levy is applicable to only one year. All taxable property is required to be assessed and taxed at a uniform and equal rate on the basis of its fair market value. The County Assessor is required to assess all other taxable property and both entities are required to assess the respective types of property as of January 1, the assessment date. The County is then required to complete the tax rolls by May 15. By July 21 the County Treasurer is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. Approved changes in assessed value are made by the County Auditor by November 1, and on this same date, the Auditor is to deliver the completed assessment rolls to the County Treasurer. Tax notices are mailed with a due date of November 30 with delinquent taxes being subject to a penalty. Unless the delinquent taxes and penalties are paid before January 15 a lien is attached to the property and the amount of taxes and penalties bear interest from

January 1 until paid. If after five years, delinquent taxes have not been paid, the County sells the property at a tax sale. Tax collections are remitted to the City from the County on a monthly basis. With the July 1, 2000, adoption of Statement of Governmental Accounting Standards (SGAS) No. 33, more fully described below, Herriman City changed its accounting for property taxes.

SGAS No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), Herriman City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005. Since the government-wide statements use the accrual basis of accounting, the government activities records both the receivable and the property tax revenue as deferred income of January 1, 2005, even though most of them will not be received until the following fiscal year.

Inter-fund Transactions

In the normal course of its operations, the City has various transactions between funds. Transfers are recognized as operating transfers in and out, respectively, by the funds receiving and providing the transfer.

Long-term Liabilities

Long-term liabilities that will be financed from governmental funds are accounted for in the governmental activities portion of the government-wide statements, while those of proprietary funds are accounted for in their respective funds.

Use of Restricted Funds

The City has funds with various restrictions. When an expense is incurred which meets the requirements to release the restriction, such restricted funds are first used to satisfy the expense followed by any unrestricted funds needed to satisfy the expense.

Contributions

Certain proprietary fund types receive contribution for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue. With the adoption of GASB No. 34, amounts that were contributed in prior years, and were shown as contributed capital, have been reclassified to part of beginning net assets.

Compensated Absences

The City compensates employees for unused vacation and compensation time. Sick pay is not paid to employees upon termination. Accumulated unpaid amounts are accrued when incurred in the government wide funds. The proprietary fund includes accrued vacation pay in their financial statements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the general and capital projects funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimated amounts for contributed assets from sub-developers are considered a significant estimate and are subject to change, and the change could be material.

Inventories

Inventories of supplies for the proprietary fund consist principally of items used in repairing and maintaining the water distribution system. Inventories are valued at cost using the first-in first-out (FIFO) method.

2. COST SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLAN

Herriman City contributes to the Local Governmental Contributory Retirement Systems and the Local Governmental Noncontributory Retirement Systems administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The System is established and governed by the respective section of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issues a publicly available financial report that includes financial statements and required supplementary information from the Local Governmental Contributory Retirement Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102, or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Herriman City is required to contribute 11.09% of the annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Herriman City's contributions to the Local Governmental Contributory and Noncontributory Retirement Systems for the years ended June 30, 2006, 2005, and 2004, were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Noncontributory employer contributions			
Salary	\$ 1,860,803	\$ 1,133,458	\$ 673,836
Employer contributions	206,363	125,701	64,806
401(k) Plan			
Employee contributions	59,063	35,194	10,763
Employer contributions	42,919	33,689	6,779
457 Plan			
Employee contributions	10,361	7,906	3,329
Employer contributions	6,681	4,561	1,559

These contributions were equal to the required contributions for each year.

3. CAPITAL ASSETS

The following schedule summarizes the changes in capital assets for governmental and business type activities during the year ended June 30, 2006.

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
<u>PRIMARY GOVERNMENT</u>				
GOVERNMENTAL ACTIVITIES				
Land	\$ 17,455,173	\$ 506,500	\$ -	\$ 17,961,673
Work in process	510,338	2,644,753	510,337	2,644,754
Total nondepreciated assets	<u>17,965,511</u>	<u>3,151,253</u>	<u>510,337</u>	<u>20,606,427</u>
Depreciated assets				
Buildings	4,364,498	841,474	-	5,205,972
Improvements	5,599,276	1,301,648	-	6,900,924
Equipment	1,121,883	367,902	(21,264)	1,468,521
Infrastructure	33,074,887	8,815,293	-	41,890,180
Vehicles	871,084	687,791	(144,541)	1,414,334
Total depreciated assets	<u>45,031,628</u>	<u>12,014,108</u>	<u>(165,805)</u>	<u>56,879,931</u>
Less accumulated depreciation				
Buildings	(202,123)	(143,732)	-	(345,855)
Improvements	(389,244)	(381,089)	-	(770,333)
Equipment	(270,555)	(164,676)	17,536	(417,695)
Infrastructure	(2,092,501)	(1,366,961)	-	(3,459,462)
Vehicles	(197,234)	(247,751)	71,825	(373,160)
Total accumulated depreciation	<u>(3,151,657)</u>	<u>(2,304,209)</u>	<u>89,361</u>	<u>(5,366,505)</u>
Net assets depreciated	<u>41,879,971</u>	<u>9,709,899</u>	<u>(76,444)</u>	<u>51,513,426</u>
Total governmental activities	<u>59,845,482</u>	<u>12,861,152</u>	<u>433,893</u>	<u>72,119,853</u>
BUSINESS-TYPE ACTIVITIES				
Nondepreciated assets				
Land	1,457,212	-	-	1,457,212
Water rights	2,628,831	1,352,794	-	3,981,625
Work in process	152,953	501,188	(152,953)	501,188
Total nondepreciated assets	<u>4,238,996</u>	<u>1,853,982</u>	<u>(152,953)</u>	<u>5,940,025</u>
Depreciated assets				
Vehicles	210,100	54,290	-	264,390
Buildings	58,400	-	-	58,400
Improvements	17,474,670	4,278,305	-	21,752,975
Equipment	187,984	22,623	-	210,607
Total depreciated assets	<u>17,931,154</u>	<u>4,355,218</u>	<u>-</u>	<u>22,286,372</u>
Less accumulated depreciation				
Vehicles	(35,472)	(50,164)	-	(85,636)
Buildings	(243)	(1,460)	-	(1,703)
Improvements	(816,014)	(674,807)	-	(1,490,821)
Equipment	(32,689)	(38,939)	-	(71,628)
Total accumulated depreciation	<u>(884,418)</u>	<u>(765,370)</u>	<u>-</u>	<u>(1,649,788)</u>
Net assets depreciated	<u>17,046,736</u>	<u>3,589,848</u>	<u>-</u>	<u>20,636,584</u>
Total business-type assets	<u>21,285,732</u>	<u>5,443,830</u>	<u>(152,953)</u>	<u>26,576,609</u>
Total combined assets	<u>\$ 81,131,214</u>	<u>\$ 18,304,982</u>	<u>\$ 280,940</u>	<u>\$ 98,696,462</u>

	<u>Governmental Types</u>	<u>Business Types</u>	<u>Totals</u>
<u>DEPRECIATION EXPENSE</u>			
FUNCTION			
General government	\$ 208,940	\$ -	\$ 208,940
Highway and streets	1,172,630	-	1,172,630
Cemetery	16,148	-	16,148
Parks	575,936	-	575,936
Public safety	22,432	-	22,432
Flood control	308,123	-	308,123
Water	-	765,369	765,369
Totals	<u>\$ 2,304,209</u>	<u>\$ 765,369</u>	<u>\$ 3,069,578</u>

4. **INTERFUND TRANSFERS**

Interfund transfers are outlined as follows:

<u>Funds</u>	<u>In</u>	<u>Out</u>
General fund	\$ -	\$ 1,052,500
Parks special revenue fund	-	179,000
Water impact fees special revenue fund	-	287,699
Street light special revenue fund	191,000	-
Debt service fund	1,028,199	-
Capital projects fund	300,000	-
Utility fund	-	-
	<u>\$ 1,519,199</u>	<u>\$ 1,519,199</u>

The purpose of the transfers from the general fund was to fund capital projects. The parks special revenue fund transferred funds to the debt service fund for payment of debt. The water impact fees special revenue fund transferred to the water fund for water capital improvements.

5. **RELATED PARTY TRANSACTIONS**

The mayor serves on the board of the South Valley Sewer District. There are no amounts due to or from this entity at year end.

6. LONG TERM DEBT

Bonds payable at June 30, 2006, are comprised of the following individual issues:

	<u>Balance 6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>	<u>Due Within One Year</u>
<u>BONDS PAYABLE</u>					
GOVERNMENTAL ACTIVITIES					
\$2,000,000 original issue building authority bonds, series 2002. Due in annual installments at a rate of 6.5%. The bonds mature in 2024 and are secured by a building.	\$ 1,896,000	\$ -	\$ (1,896,000)	\$ -	\$ -
Sales tax series 2005 refunding bonds due in annual installments at rates of 3.9% to 4.25%. The bonds mature in June of 2009 and are secured by sales tax revenues	-	552,000	(166,000)	386,000	169,000
\$1,508,000 original issue building authority bond series 2001. Interest is at 4.5%. The bonds mature in 2016 and are secured by a building.	<u>1,202,000</u>	<u>-</u>	<u>(83,000)</u>	<u>1,119,000</u>	<u>88,000</u>
Total governmental long-term debt	<u>3,098,000</u>	<u>552,000</u>	<u>(2,145,000)</u>	<u>1,505,000</u>	<u>257,000</u>
BUSINESS-TYPE ACTIVITIES					
Water revenue bonds original issue was \$2,239,000 with an interest rate of 3.2%. The bonds mature in 2006 and are secured by water revenues	2,239,000	-	(2,239,000)	-	-
Series 2003 water revenue bonds original issue was \$3,600,000 with interest at 1.9%. The bonds are secured by water revenues and mature in 2024.	3,450,000	-	(153,000)	3,297,000	156,000
Water revenue bonds series 2005. The bonds bear interest at 4.29%, are less a bond discount of \$14,897, and are secured by water revenue. They mature in January 2011.	-	5,493,000	-	5,493,000	-
Bond discount on 2005 bonds	-	(18,000)	3,103	(14,897)	(2,735)
Taxable water revenue bonds series 2005. Bonds bear no interest but are discounted at 3%. The bonds are less a discount of \$55,585 and are secured by water revenue and mature in December 2012.	-	556,000	(59,000)	497,000	64,000
Series Herriman pipeline bonds original issue was \$637,000 with interest at 0%. The bonds are secured by water revenues and will be refinanced in 2005.	<u>494,022</u>	<u>-</u>	<u>(494,022)</u>	<u>-</u>	<u>-</u>
Total business-type long-term debt	<u>6,183,022</u>	<u>6,031,000</u>	<u>(2,941,919)</u>	<u>9,272,103</u>	<u>217,265</u>
Total bonds payable	<u>\$ 9,281,022</u>	<u>\$ 6,583,000</u>	<u>\$ (5,086,919)</u>	<u>\$ 10,777,103</u>	<u>\$ 474,265</u>
GOVERNMENTAL ACTIVITIES, OTHER LIABILITIES					
Compensated absences	\$ 7,664	\$ 48,803	\$ -	\$ 56,467	\$ -
Capital leases	359,589	536,494	(312,709)	583,374	190,298
BUSINESS, OTHER LIABILITIES					
Compensated absences	24,136	-	(8,098)	16,038	-
Capital leases	127,509	54,290	(63,453)	118,346	28,518

The annual debt requirement to maturity, including principal and interest as of June 30, 2006, for the business fund are listed in the following table:

Year Ending 30-Jun	Series 2003A Revenue Bonds			Series 2005 Water Revenue			Series 2005 Taxable Bonds		
	Rate	Principal	Interest	Rate	Principal	Interest	Rate	Principal	Interest
2007	1.86%	\$ 156,000	\$ 61,324		\$ -	\$ 235,650	0.00%	\$ 64,000	\$ 13,242
2008	1.86%	159,000	58,422		-	235,650	0.00%	70,000	11,719
2009	1.86%	162,000	55,465		-	235,650	0.00%	71,000	9,971
2010	1.86%	165,000	52,452		-	235,650	0.00%	73,000	81,410
2011	1.86%	168,000	49,383	4.59%	5,493,000	117,825	0.00%	73,000	6,195
2012-2016	1.86%	887,000	198,908		-	-		146,000	6,317
2017-2021	1.86%	972,000	143,330		-	-		-	-
2022-2026	1.86%	628,000	23,511		-	-		-	-
Less Discounts		-	-	0.30%	(14,897)	-		-	-
Totals		<u>\$ 3,297,000</u>	<u>\$ 642,795</u>		<u>\$ 5,478,103</u>	<u>\$ 1,060,425</u>		<u>\$ 497,000</u>	<u>\$ 128,854</u>

The series 2003 water revenue bonds were refunded by the water revenue series bonds 2005. The Herriman pipeline bonds were also refunded with the taxable water revenue bond series 2005.

The annual debt requirement to maturity, including principal and interest as of June 30, 2006, for the governmental funds are listed in the following table.

Year Ending 30-Jun	Bond Series 2001			Sales Tax Series 2005		
	Rate	Principal	Interest	Rate	Principal	Interest
2007	5.25%	\$ 88,000	\$ 58,878	4.05%	\$ 169,000	\$ 16,652
2008	5.35%	92,000	54,258	4.15%	175,000	9,047
2009	5.40%	97,000	49,336	4.25%	42,000	1,785
2010	5.50%	102,000	44,098		-	-
2011	5.55%	108,000	38,488		-	-
2012-2016	5.15%	632,000	32,548		-	-
2017-2021		-	-		-	-
2022-2026		-	-		-	-
Totals		<u>\$ 1,119,000</u>	<u>\$ 277,606</u>		<u>\$ 386,000</u>	<u>\$ 27,484</u>

The bond series 2002 bonds were refunded by the issuance of sales tax series 2005 bonds and a payment from the City of \$1,344,000.

7. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the City's funds. Cash and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$14,003,661

Cash investments and cash equivalents as of June 30, 2006, consist of the following:

Cash on hand	\$ 130
Deposits with financial institutions	4,034,352
Investments, state treasurer	9,969,179
	<hr/>
Total cash and cash equivalents	\$ 14,003,661
	<hr/>

Investments Authorized by the Utah Government Code

The City follows the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. This law requires the depositing of City funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution in whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for the City and the conditions for making investments and investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Certain assets are restricted by provisions of the revenue bond resolutions. The resolutions also describe how these restricted assets may be deposited and invested. Restricted cash may only be deposited in state or national banks meeting certain minimum net worth requirements, or invested in securities representing direct obligations of, or obligations guaranteed by, the United States government, agencies of the United States government, any state within the territorial United States of America, or repurchase agreements or interest bearing time deposits with state or national banks meeting certain minimum net worth requirements.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the money Management Act. The act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF, and details the type of authorized investments it makes.

Deposits in the PITF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in any realized gains or losses on investments.

As of June 30, 2006, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1, Less Than 10 Years</u>	<u>More Than 10 Years</u>
State of Utah Public Treasurer investment fund	\$ 9,969,179	\$ 9,969,179	\$ -	\$ -
Total investments	<u>\$ 9,969,179</u>	<u>\$ 9,969,179</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that occurs when changes in interest rates will adversely affect the fair value of an investment. The City policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. In accordance with that act, the remaining term to maturity of the investments above do not exceed the period of availability of these funds.

Credit Risk

Credit risk is the risk that an issuer, or other counterparty to an investment, will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act. As of June 30, 2006, the Utah Public Treasurer's investment fund was unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial Credit Risk Deposits

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy of custodial credit risk. As of June 30, 2006, \$3,677,877 of the \$4,434,352 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk Investments

For an investment, this is the risk that, in the event of the failure if the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer Investment Fund has no custodial credit risk.

8. RESERVED FUND BALANCES

The City records reserves to indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amounts of all reserves used by the City:

Description	Government Activities	Business Activities	Total
Special revenue, street lights	\$ 48,850	\$ -	\$ 48,850
Special revenue, park impact fees	51,201	-	51,201
Special revenue, water rights	1,301,991	-	1,301,991
Special revenue, water impact fees	1,121,630	-	1,121,630
Special revenue, flood control	1,045,591	-	1,045,591
Special revenue, road impact fees	2,545,850	-	2,545,850
Bond reserve funds	211,986	-	211,986
	<u>\$ 6,327,099</u>	<u>\$ -</u>	<u>\$ 6,327,099</u>

9. INTEREST EXPENSE

The proprietary fund incurred \$297,363 in interest expense of which \$297,363 was charged to expense and \$0 was capitalized.

10. RESTRICTED CASH

The City has restricted cash of \$6,666,310 for impact fees, \$211,985 for debt service in the governmental funds, \$3,176,955 for bond escrow funds, and \$519,136 for bond reserve funds.

11. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The City has several subdivision projects that are in process at year end. The City has experienced rapid growth over the last few years with several subdivisions planned after year end. The city has some legal actions for various claims. Most of the claims should be covered by insurance and are not material to the financial statements.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, property damage, errors, omissions, injuries, and natural disasters. The City has purchased comprehensive general liability insurance and pays premiums for general insurance coverage, automobile liability, and personal injury protection.

13. TOTAL COLUMNS

Total columns on the governmental fund statements are captioned "Total" and are presented to facilitate financial analysis. Data in these columns does not represent consolidated information since interfund eliminations have not been made.

14. COMPLIANCE

The City has overspent the flood control, debt service, street lights, and capital improvements funds. The City has also overspent the information technology, street lights, public safety, community affairs, and community development departments in the general fund.

15. INTERLOCAL AGREEMENTS AND SERVICE DISTRICTS

The City participates in the following services agreements:

- South Jordan Special Service District
- Salt Lake County Fire and Emergency Services
- Salt Lake County Law Enforcement Contract
- Salt Lake County Animal Control
- Salt Lake County Public Works
- Jordan Valley Water Conservatory District

The City does not have total or final control over the fiscal or administrative activities of these entities. Payments for services to these entities are included as expenditures of the City's general fund.

16. NON-CASH TRANSACTIONS ENTERPRISE FUND

The City obtained assets from developers who built subdivisions in the City and conveyed the property to the City. The amount of contribution was \$3,907,724. The City special revenue impact fees contributed assets to the fund of \$1,456,052. The City obtained assets from capital leases in the amount of \$54,290.

17. OBLIGATION UNDER CAPITAL LEASE

The City acquired certain enterprise assets financed with capital leases. The leased assets and related capital lease obligations are accounted for in the enterprise fund. The lease agreements contain fiscal funds in clauses which allow cancellation of leases if future funds for the leases are not budgeted by the City Council.

Capital lease for equipment during the year ended June 30, 2006, was \$54,290. The City has an option of paying off the lease before the lease expires.

The following is a schedule of yearly future lease payments for the capital lease together with the present rate of net minimum lease payments as of June 30, 2006.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
June 30, 2007	\$ 33,085
June 30, 2008	32,758
June 30, 2009	13,593
June 30, 2010	13,215
June 30, 2011	12,818
Thereafter	<u>24,473</u>
Totals	<u>129,942</u>
Less amounts representing interest	<u>(11,586)</u>
Present value	118,356
Less current portion	<u>(28,518)</u>
Long term	<u>\$ 89,838</u>

The depreciation expense from these assets was \$23,340 in 2006. The City has acquired certain general fixed assets financed with capital leases. These leases have fiscal funding in clauses which allow the cancellation of leases if future funds for the leases are not budgeted by the City Council.

Capital lease for equipment during the year ended June 30, 2006, was \$536,493. The City has an option of paying off the leases before the leases expire.

The following is a schedule of yearly future lease payments for the capital lease together with the present value of the net minimum lease payments as of June 30, 2006.

<u>Year Ending June 30</u>	<u>Lease Payments</u>
June 30, 2007	\$ 219,046
June 30, 2008	173,724
June 30, 2009	160,782
June 30, 2010	94,524
June 30, 2011	-
Thereafter	<u>-</u>
Totals	<u>648,076</u>
Less amounts representing interest	<u>(64,701)</u>
Present value	583,375
Less current portion	<u>(190,298)</u>
Long term	<u>\$ 393,077</u>

18. NEW ISSUED ACCOUNTING STANDARDS

The GASB has issued the following statements that will apply to government reporting in future years:

- GASB No 45 Post employee benefits
- GASB No 43 Pension plans
- GASB No 48 Sale and Pledges of Receivables and Future Revenues

None of these statements appear to have a material impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HERRIMAN CITY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2006

	Budgeted Amounts			Actual Amounts Budgetary	Favorable (Unfavorable) Variance with
	Original	Changes	Final	Basis	Final Budget
REVENUES					
General property taxes	\$ 1,007,050	\$ 100,000	\$ 1,107,050	\$ 1,215,446	\$ 108,396
Sales, use, and excise taxes	505,000	365,000	870,000	961,598	91,598
Franchise taxes	22,800	-	22,800	25,838	3,038
Licenses	25,000	-	25,000	38,035	13,035
Permits	5,403,006	(55,000)	5,348,006	4,961,304	(386,702)
Interest	160,000	-	160,000	158,279	(1,721)
Intergovernmental	317,700	37,500	355,200	364,539	9,339
Fines	80,000	(30,000)	50,000	50,997	997
Charges for services	10,720	25,000	35,720	340,005	304,285
Contributions	-	-	-	500	500
Grants	21,500	-	21,500	138,678	117,178
Sale of assets	50,000	-	50,000	123,495	73,495
Miscellaneous	99,200	148,500	247,700	99,105	(148,595)
Total revenues	<u>7,701,976</u>	<u>591,000</u>	<u>8,292,976</u>	<u>8,477,819</u>	<u>184,843</u>
EXPENDITURES					
Administrative	1,027,427	110,990	1,138,417	1,072,114	66,303
Facilities	164,360	22,000	186,360	150,367	35,993
Information technology	154,325	-	154,325	158,928	(4,603)
Highways and streets	740,195	360,000	1,100,195	773,747	326,448
Street lights	88,285	31,000	119,285	123,324	(4,039)
Storm drain maintenance	254,484	157,000	411,484	235,328	176,156
Street Signs	111,445	(25,000)	86,445	78,443	8,002
Cemetery	59,641	13,000	72,641	57,893	14,748
Public safety	1,770,830	65,010	1,835,840	1,838,314	(2,474)
Parks and recreation	1,159,362	390,000	1,549,362	1,504,257	45,105
Community affairs	140,307	36,000	176,307	185,637	(9,330)
Engineering	522,911	-	522,911	508,127	14,784
Fleet management	50,959	12,000	62,959	59,798	3,161
Community development	1,117,945	(500,000)	617,945	639,944	(21,999)
Total expenditures	<u>7,362,476</u>	<u>672,000</u>	<u>8,034,476</u>	<u>7,386,221</u>	<u>648,255</u>
Excess of revenues over expenditures (usage of fund balance)	<u>339,500</u>	<u>(81,000)</u>	<u>258,500</u>	<u>1,091,598</u>	<u>833,098</u>
OTHER FINANCING SOURCES					
Transfers out	(809,220)	(272,280)	(1,081,500)	(1,052,500)	29,000
Transfers in	-	-	-	-	-
Lease proceeds	-	823,000	823,000	536,494	(286,506)
Total other financing sources	<u>(809,220)</u>	<u>(272,280)</u>	<u>(1,081,500)</u>	<u>(516,006)</u>	<u>(257,506)</u>
Net change in fund balance	(469,720)	(353,280)	(823,000)	575,592	575,592
FUND BALANCE, JULY 1, 2005	<u>1,726,340</u>	<u>-</u>	<u>1,726,340</u>	<u>1,726,340</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 1,256,620</u>	<u>\$ (353,280)</u>	<u>\$ 903,340</u>	<u>\$ 2,301,932</u>	<u>\$ 575,592</u>

HERRIMAN CITY

Budgetary Comparison Schedule Flood Control Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes	Budgetary Basis	
REVENUES				
Impact fees	\$ 1,200,000	\$ -	\$ 800,275	\$ (399,725)
Interest	-	-	124,729	124,729
Total revenues	1,200,000	-	925,004	(274,996)
EXPENDITURES				
Capital outlay	2,661,566	-	2,800,034	(138,468)
Total expenditures	2,661,566	-	2,800,034	(138,468)
Excess revenues over expenditures	(1,461,566)	-	(1,875,030)	(413,464)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Revenue and other sources over (under) expenditures and other uses	(1,461,566)	-	(1,875,030)	(413,464)
FUND BALANCE, JULY 1, 2005	2,920,621	-	2,920,621	-
FUND BALANCE, JUNE 30, 2006	\$ 1,459,055	\$ -	\$ 1,045,591	\$ (413,464)

HERRIMAN CITY

Budgetary Comparison Schedule Debt Service Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes Final		
REVENUES				
Interest	\$ -	\$ -	\$ 16,056	\$ 16,056
Total revenues	-	-	16,056	16,056
EXPENDITURES				
Debt service				
Principal	695,919	-	2,145,000	(1,449,081)
Interest	5,000	5,000	139,227	(134,227)
Total expenditures	700,919	700,919	2,284,227	(1,583,308)
Excess revenues over expenditures	(700,919)	-	(2,268,171)	(1,567,252)
OTHER FINANCING SOURCES (USES)				
Bond proceeds			552,000	552,000
Transfers in	695,919	-	1,028,199	332,280
Revenue and other sources over (under) expenditures and other uses	(5,000)	(5,000)	(687,972)	(682,972)
FUND BALANCE, JULY 1, 2005	1,320,962	-	1,320,962	-
FUND BALANCE, JUNE 30, 2006	\$ 1,315,962	\$ -	\$ 632,990	\$ (682,972)

HERRIMAN CITY

Budgetary Comparison Schedule Road Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget Changes		
REVENUES				
Interest	\$ -	\$ -	\$ 64,680	\$ 64,680
Impact fees	1,732,500	-	1,514,218	(218,282)
Total revenues	1,732,500	-	1,578,898	(153,602)
Expenditures				
Capital outlay	2,957,641	-	551,686	2,405,955
Total expenditures	2,957,641	-	551,686	2,405,955
Excess of revenues over expenditures	(1,225,141)	-	1,027,212	2,252,353
OTHER FINANCES SOURCES (USES)				
Transfers out	-	-	-	-
Net change in fund balance	(1,225,141)	-	1,027,212	2,252,353
FUND BALANCE, JULY 1, 2005	1,518,639	-	1,518,639	-
FUND BALANCE, JUNE 30, 2006	\$ 293,498	\$ -	\$ 2,545,851	\$ 2,252,353

HERRIMAN CITY

Budgetary Comparison Schedule Water Rights Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts		Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes	Final	Budgetary Basis	
REVENUES					
Impact fees	\$ 1,375,000	\$ -	\$ 1,375,000	\$ 1,514,073	\$ 139,073
Interest	-	-	-	65,385	65,385
Total revenues	1,375,000	-	1,375,000	1,579,458	204,458
EXPENDITURES					
Capital outlay	2,160,000	-	2,160,000	1,427,610	732,390
Total expenditures	2,160,000	-	2,160,000	1,427,610	732,390
Excess revenues over expenditures	(785,000)	-	(785,000)	151,848	936,848
OTHER FINANCING SOURCES (USES)					
Transfers out	-	-	-	-	-
Revenue and other sources over (under) expenditures and other uses	(785,000)	-	(785,000)	151,848	936,848
FUND BALANCE, JULY 1, 2005	1,150,143	-	1,150,143	1,150,143	-
FUND BALANCE, JUNE 30, 2006	\$ 365,143	\$ -	\$ 365,143	\$ 1,301,991	\$ 936,848

SUPPLEMENTARY INFORMATION

HERRIMAN CITY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Capital Improvements	Special Revenue Street Lights	Special Revenue Water Impact	Special Revenue Parks	Totals
ASSETS					
Cash, unrestricted	\$ 152,859	\$ -	\$ -	\$ -	\$ 152,859
Cash, restricted	-	171,058	1,122,876	89,611	1,383,545
Total assets	<u>152,859</u>	<u>171,058</u>	<u>1,122,876</u>	<u>89,611</u>	<u>1,536,404</u>
LIABILITIES					
Accounts payable	-	122,208	1,246	38,410	161,864
Fund balances					
Unrestricted	152,859	-	-	-	152,859
Restricted bond sinking fund	-	-	-	-	-
Restricted	-	48,850	1,121,630	51,201	1,221,681
Total fund balance	<u>152,859</u>	<u>48,850</u>	<u>1,121,630</u>	<u>51,201</u>	<u>1,374,540</u>
Total liabilities and fund balance	<u>\$ 152,859</u>	<u>\$ 171,058</u>	<u>\$ 1,122,876</u>	<u>\$ 89,611</u>	<u>\$ 1,536,404</u>

HERRIMAN CITY

Combining Statement of Revenues, Expenditures, and Changes in

Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Capital Improvements	Special Revenue Street Lights	Special Revenue Water Impact Fees	Special Revenue Parks	Totals
REVENUES					
Impact fees	\$ -	\$ 318,000	\$ 591,934	\$ 1,159,210	\$ 2,069,144
Interest	-	-	39,117	5,795	44,912
Charges for services	190,248	-	-	-	190,248
Total revenues	190,248	318,000	631,051	1,165,005	2,304,304
EXPENDITURES					
Capital outlay	550,550	675,691	316,145	937,770	2,480,156
Debt service	-	-	-	-	-
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	550,550	675,691	316,145	937,770	2,480,156
Revenues over (under) expenditures	(360,302)	(357,691)	314,906	227,235	(175,852)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	300,000	191,000	-	-	491,000
Operating transfers out	-	-	(287,699)	(179,000)	(466,699)
Total other financing sources (uses)	300,000	191,000	(287,699)	(179,000)	24,301
Revenues and other sources over expenditures and other uses	(60,302)	(166,691)	27,207	48,235	(151,551)
FUND BALANCE, JULY 1, 2005	213,161	215,241	1,094,423	2,966	1,525,791
FUND BALANCE, JUNE 30, 2006	\$ 152,859	\$ 48,550	\$ 1,121,630	\$ 51,201	\$ 1,374,240

HERRIMAN CITY

Budgetary Comparison Schedule Parks Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes	Basis	
REVENUES				
Impact fees	\$ 1,314,250	\$ -	\$ 1,159,210	\$ (155,040)
Interest	-	-	5,795	5,795
Contributions	-	-	-	-
Total revenues	<u>1,314,250</u>	<u>-</u>	<u>1,165,005</u>	<u>(149,245)</u>
EXPENDITURES				
Capital outlay	1,060,000	-	937,769	122,231
Total expenditures	<u>1,060,000</u>	<u>-</u>	<u>937,769</u>	<u>122,231</u>
Excess revenues over expenditures	254,250	-	227,236	(27,014)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>(179,000)</u>	<u>-</u>	<u>(179,000)</u>	<u>-</u>
Revenue and other sources over (under) expenditures and other uses	75,250	-	48,236	(27,014)
FUND BALANCE, JULY 1, 2005	<u>2,966</u>	<u>-</u>	<u>2,966</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 78,216</u>	<u>\$ -</u>	<u>\$ 51,202</u>	<u>\$ (27,014)</u>

HERRIMAN CITY

Budgetary Comparison Schedule Water Impact Fees Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (unfavorable) Variance with Final Budget
	Original	Budget Changes Final		
REVENUES				
Impact fees	\$ 1,443,750	\$ -	\$ 591,934	\$ (851,816)
Interest	-	-	39,117	39,117
Total revenues	<u>1,443,750</u>	<u>1,443,750</u>	<u>631,051</u>	<u>(812,699)</u>
EXPENDITURES				
Capital outlay	2,472,720	-	316,144	2,156,576
Total expenditures	<u>2,472,720</u>	<u>2,472,720</u>	<u>316,144</u>	<u>2,156,576</u>
Excess revenues over expenditures	(1,028,970)	-	314,907	1,343,877
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(287,699)</u>	<u>(287,699)</u>	<u>(287,699)</u>	<u>-</u>
Revenue and other sources over (under) expenditures and other uses	(1,316,669)	-	27,208	1,343,877
FUND BALANCE, JULY 1, 2005	<u>1,094,423</u>	<u>1,094,423</u>	<u>1,094,423</u>	<u>-</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ (222,246)</u>	<u>\$ (222,246)</u>	<u>\$ 1,121,631</u>	<u>\$ 1,343,877</u>

HERRIMAN CITY

Budgetary Comparison Schedule Capital Improvement Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget changes Final		
REVENUES				
Permits	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	190,248	190,248
Total revenues	-	-	190,248	190,248
EXPENDITURES				
Capital outlay	180,000	-	550,550	(370,550)
Total expenditures	180,000	-	550,550	(370,550)
Excess of revenues over expenditures (usage of fund balance)	(180,000)	-	(360,302)	(180,302)
OTHER FINANCES SOURCES (USES)				
Transfers in	180,000	-	300,000	120,000
Total other financing sources	180,000	-	300,000	120,000
Net change in fund balance	-	-	(60,302)	(60,302)
FUND BALANCE, JULY 1, 2005	213,161	-	213,161	-
FUND BALANCE, JUNE 30, 2006	\$ 213,161	\$ -	\$ 152,859	\$ (60,302)

HERRIMAN CITY

Budgetary Comparison Schedule Street Lights Special Revenue Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Favorable (Unfavorable) Variance with Final Budget
	Original	Budget changes Final		
REVENUES				
Impact fees	\$ 450,000	\$ -	\$ 318,300	\$ (131,700)
Interest	-	-	-	-
Total revenues	450,000	450,000	318,300	(131,700)
EXPENDITURES				
Capital outlay	-	-	675,690	(675,690)
Total expenditures	-	-	675,690	(675,690)
Excess of revenues over expenditures (usage of fund balance)	450,000	450,000	(357,390)	(807,390)
OTHER FINANCES SOURCES (USES)				
Transfers in	-	-	191,000	191,000
Total other financing sources	-	-	191,000	191,000
Net change in fund balance	450,000	450,000	(166,390)	(616,390)
FUND BALANCE, JULY 1, 2005	215,241	215,241	215,241	-
FUND BALANCE, JUNE 30, 2006	\$ 665,241	\$ 665,241	\$ 48,851	\$ (616,390)

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Honorable Mayor and City Council
Herriman City
Herriman, Utah

December 26, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Herriman City for the year ended June 30, 2006, and have issued our report thereon dated December 26, 2006. As part of our audit, we have audited Herriman City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Funds (Utah State Tax Commission)

The City did not receive any nonmajor state grants for the fiscal year 2006.

Our audit also included test work on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt	Cash Management
B & C Road Funds	Purchasing Requirements
Special Districts	Budgetary Compliance
Other Compliance Requirements	Property Tax
Department of Commerce -	Building Permits
Liquor Law Enforcement	Impact Fees
Asset Forfeitures	

The management of Herriman City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Herriman City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.


GILBERT & STEWART
Certified Public Accountants

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REPORT IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Herriman City
Herriman, UT

December 26, 2006

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herriman City as of and for the year ended June 30, 2006, and have issued our report thereon dated December 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Herriman City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Herriman City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However we noted certain immaterial instances of noncompliance that we reported to management of Herriman City in a separate letter dated December 26, 2006.

This report is intended solely for the information of management, City Council, and Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

Herriman City

Schedule of Impact Fees

For the Year Ended June 30, 2006

Herriman City collects parks, storm drain, road, water rights, and water impact fees. The following is a recap of the impact fees outstanding by year of collection:

Year Collected	Parks	Storm Drain	Roads	Water Rights	Water Impact
2001	\$ -	\$ -	\$ -	\$ -	\$ -
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	372,520	-	-
2006	72,345	1,284,474	2,173,330	1,301,991	1,121,630
Total	\$ 72,345	\$ 1,284,474	\$ 2,545,850	\$ 1,301,991	\$ 1,121,630

The following capital projects are planned to use the impact fees shown above:

For the Year Ended June 30 of the Following:	Capital Project Planned	Projected Cost	Estimated Starting Date
PARK IMPACT FEES			
2007	Skate park	\$ 500,000	10/1/2006
2008	Quad baseball complex	2,000,000	8/1/2007
2009	Pool/indoor event arena	6,000,000	11/1/2008
STORM DRAIN IMPACT			
2007	12600 South storm drain impact	1,200,000	2/1/2007
2008	13400 South Storm drain impact	1,500,000	9/1/2007
2009	Midas Creek storm drain impact	15,000,000	10/1/2008
ROAD IMPACT FEES			
2007	Herriman Parkway project	1,200,000	11/1/2006
2008	Herriman Parkway project	1,500,000	7/1/2007
2009	Herriman Parkway project	1,500,000	12/1/2008
WATER RIGHTS			
2007	Purchase ground water rights	1,000,000	7/1/2006
	Purchase canal share/ secondary water	500,000	12/1/2006
2008	Purchase ground water rights	1,000,000	7/1/2007
	Purchase canal share/ secondary water	500,000	12/1/2007
2009	Purchase ground water rights	1,000,000	7/1/2008
	Purchase canal share/ secondary water	500,000	12/1/2008
WATER IMPACT FEES			
2007	Three million gallon tank	1,750,000	3/1/2007
	Transmission line	1,000,000	1/10/2007
	Stokes well	500,000	5/2/2007
2008	Meter Station - 11800 South	500,000	6/10/2008
2009	Two million gallon tank - Zone 2	1,500,000	6/10/2009

HERRIMAN CITY
MANAGEMENT LETTER
JUNE 30, 2006

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December 26, 2006

Honorable Mayor and City Council
Herriman City
Herriman, UT

We have audited the financial statements of Herriman City for the year ended June 30, 2006 and have issued our report thereon dated December 26, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated September 6, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Herriman City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Herriman City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise

management about the appropriateness of accounting policies and their application. The significant accounting policies used by Herriman City are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Herriman City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Herriman City's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The following matters are items noticed during our audit which related to Utah State compliance issues:

Utah State Findings – Current Year

06-1 Budgetary Compliance

Finding: Utah State law prohibits the City from incurring expenditures in excess of those budgeted. During the course of our audit we noted that the expenditures exceeded appropriations in certain departments of the General Fund:

General Fund:

Information Technology	\$ 4,603
Street Lights	\$ 4,039
Public Safety	\$ 2,474
Community Affairs	\$ 9,330
Community Development	\$ 21,999

We also noted that expenditures exceeded appropriation in certain other funds:

Flood Control	\$ 138,468
Debt Service	\$1,031,308
Capital Improvements	\$ 370,550
Street Lights	\$ 675,690

Recommendation: We recommend that the City make necessary budgetary adjustments to bring the fund balance into compliance with the state law.

City's Response: We will monitor the budgets closely to make sure departments do not over spend their allotted budget. We will also monitor new bond appropriations and budget them properly.

06-2 Fund Balance Compliance

Finding: Utah State law requires general fund balance be within 18% of estimated revenue. We noted during our audit that the City exceeded that limit.

Recommendation: We recommend that the City make necessary budgetary adjustments to bring the fund balance into compliance with the state law.

City's Response: We will monitor and correct the fund balance to reduce to fund balance to below the 18% legal limit

06-2 Building Code Compliance

Finding: The City is required to submit a report each quarter to State of Utah for a portion of the building permits collected. We noted that two of the quarters were not filed with the state.

Recommendation: We recommend the City take steps to ensure the building permit reports are accurately and timely prepared and that the proper amount is sent to the State.

City's Response: We will file the necessary reports.

Utah State Findings – Prior Year

05-1. Budgetary Compliance

Finding: The City overspent the budgeted amounts in the special revenue impact funds.

Recommendation: The City needs to review the budget and actual expenditures of these funds and make expenditure restrictions or budget modifications to keep the expenditures within the approved budget. The City can also budget the beginning fund balance in the budget process for increased budget expenditures.

Current Status: See current year findings.

05-2 Fund Balance Compliance

Finding: The City's general fund balance is over the state legal limit.

Recommendation: We recommend the City transfer funds to the capital improvements fund for future capital projects planned by the City.

Current Status: See current year finding

Other Matters for Consideration:

1. The City has significant donated infrastructure, land, and assets from land developers. The City does not have a process to evaluate or control the amount of the donated assets.

The City needs to establish a systematic way to record and value the donated infrastructure and assets. One process could be an asset summary prepared in conjunction with the City engineer and the developers that lists the assets at the close of the project and when the assets were conveyed to the City. The sheet could identify the assets conveyed to the City with the estimated values.

City's Response: The city engineering department will report monthly changes that occur to the accounting department so that we can have better control.

2. The City has a special revenue fund to record the income and expenses from water impact fees.

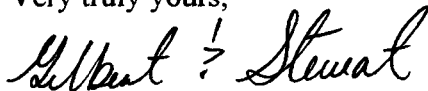
We recommend that this fund be combined with the Water Utility Fund.

City's Response: We agree and will comply.

We thank you for the opportunity to serve Herriman City. City personnel were very helpful in providing required documentation and information during our audit. Management is providing information and services to the City in an efficient and competent manner. If you have any questions regarding the above information or our audit please call.

This information is intended solely for the use of the City Council and management, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART

Certified Public Accountants

Founded 1851



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Herriman City's Corrective Action

Corrective action plan form for compliance with state laws on budgetary compliance and accumulation of fund balance in the general fund.

Submitted to the Utah State Auditor's office

Budgetary compliance

Background information

The city has over spent several departments in the general fund and has overspent the budget in several individual funds. State law prohibits expenditures in excess of the final approved budget. The city has formed the following procedures to correct the budgetary compliance.

City corrective action

The city will take steps to correctly identify the problems with the budget by the following corrective actions.

- a) The city will hold monthly budget meetings with the mayor, director of finance and departments heads. Any budgets that have signs of expenditures in excess of approved budget will be discussed with the department heads and the expenditures will be reviewed

- b) The city will develop procedures to reflect more accurate budget estimates and review the estimates to determine if the original amounts are accurate or need revising.
- c) We will train the department's heads on the importance of using their budgets and keeping expenditures within the budget.

City's progress toward corrective action

The city has done the following procedures to implement the corrective actions listed above.

- a) The city has communicated with the department heads on the importance of expenditures not exceeding the final legal budget.
- b) The city has reviewed the process of developing estimates for the expenditures and has analyzed the budgets estimates that need to be revised.

City's time table for finishing the implementation of the corrective actions

- a) A meeting will be held each May to analyze the budget and make changes to the final budget.
- b) Department heads will be personally interviewed by the Mayor and finance director every December and May to analyze their budget and inform them about the amount of money they have remaining in their budgets and put restrictions on their expenditures if necessary.

Fund balance in the general fund in excess of the legal limit

Background information

The state law allows general fund balance to 18% of general fund revenues. Fund balances in excess of this amount are not in compliance with state law. The city has had fund balances in excess of the legal limit.

City corrective action

The city will do the following corrective actions to correct the excess fund balance in the general fund.

- a) The city has several capital projects and the excess fund balance will be transferred into capital projects to fund these projects.
- b) The city will monitor the excess of revenues over expenditures in the general fund and make the necessary adjustments to transfer excess funds.
- c) The city will make more accurate estimates of the excess of revenues over expenditures in the general fund to insure the fund balance does not accumulate in excess of the legal limit.

City's progress toward corrective action

The city has made progress in implementing the corrective actions listed above by the following procedures.

- a) The city has held a budget meeting and has a proposed budget amendment to transfer the excess funds.

City's time table for completion of the corrective action plan

The correction has been made for the fund balance.

All other corrective actions will be completed by the end of May of 2007.

Name of individuals who will do the corrective actions:

Shauna DeKorver, Finance Director 801-446-5323

Mayor J. Lynn Crane 801-446-5323

Sincerely,

A handwritten signature in cursive script that reads "Shauna DeKorver". The signature is written in dark ink and includes a long, sweeping horizontal stroke at the end.

Shauna DeKover
Finance Director